Example of international financial analysis essay

Business, Marketing

With increased globalization, international finance has gone a notch further effectively entertaining more financial transactions than has been previously witnessed. This paper will explore the recent character of the financial markets and instruments in the trade. A financial market refers to the environment in which various types of financial instruments exchange hands or transfer possession through legitimate trade. A financial market does not have to be physical in nature. With increased technological applications and a growing need to bridge distances, financial markets have begun to assume a virtual and representative character.

The current financial markets can be categorised into the following: capital markets, commodity markets, money markets, derivate markets, insurance markets, future markets, and foreign exchange markets, among others. From the foregoing, it should be appreciated that the types of markets is dictated largely by the commodity or financial instruments it transacts in. The difference between local and international financial markets lies in the jurisdiction of operations. For the local markets, their transactions are limited to within the national borders of the country while for the international markets, investors from across the globe are free to transact in the business.

Financial markets play a number of financial roles that are largely intermediary in nature. By this, the market facilitates the interaction between buyers and sellers. What this commutes to is an interaction that involves exchanges. Before examining the various financial instruments, it is essential to examine some of the functions of the financial markets. They include; the transfer of resources through the exchange between lenders

and borrowers, creation of income earning opportunities for the lenders, usage and utility of funds through their circulation in relation to the demand and supply dynamics. It also facilitates dissemination of information on available financial opportunities and functions. In the long run, this exchange goes deep in balancing the trade deficits and surpluses.

Financial instruments are diverse. This section shall examine some of the most essential instruments. Commodities relate to real physical commodities. They are transacted in financial markets either as immediate commodities or in the form of futures or forward contracts. The most applicable commodities in this context include oil, gold, diamond, any other commodities with monetary value. Often, the commodities in trade are those in demand and which have the capability of creating value in utility upon being further processed. In the capital markets, the most common instruments are stocks and bonds. The stock is a unit of ownership of a company. Often, for the blue chip and progressive companies that have enlisted in the international markets, their stocks are often put on sale. As it stands, the most valuable stock in the international markets is Apple Inc.'s stocks. The stocks prices fluctuate with demand and supply and the attendant market dynamics in relation to the position of the firm of the stocks. The bond is a unit of capital that represents a debt owed to the bond holder by the company that has issued bonds. Like the stock, the bond is traded in the international markets. The beauty of bonds is that they earn the bondholder interest that accrues irrespective of the performance of the company. However, it must be noted that interests on bonds is often low due to its less risky character.

In the foreign exchange markets, instrument in trade is foreign currencies. The value of foreign currencies often accrues upon the weakening of a certain currency over the other. In many cases, international transactions are denominated and carried out in the United States of America Dollars. The value of the dollar against another currency would fluctuate depending on the nation’s economic performance. A fall or an increase in the value of a currency commutes to losses or gains for the holder of the currency. This is often called the foreign exchange gains or losses.

In future markets, the main instrument is futures. A future is an option in which the parties undertake to execute a purchase and a sale in the same transaction in relation to a definite quantity of a commodity on a future and certain date. Futures are instruments that hedge either party from potential future changes in the market. Often, the market is dynamic and susceptible to changes that could increase of decrease the value of the commodities in the transaction. The future occurrence would dictate the gainer and loser in the future contract entered into. In the same markets, one gets derivatives. Derivatives are instruments that derive value from the value of underlying assets in the contract that informed the derivative. For instance, the derivative contract could be based on the following underlying factors; interest rates, assets, currency exchange rates, and commodity and equity prices. A derivative would, therefore, derive its values from the contract that defines the bases, dates, rates and conditions of the underlying assets. In the long run, it would confer gains or losses for either of the party.

In conclusion, it should be noted that financial markets could overlap with

different markets having diverse and overlapping instruments. The overriding objective often is the gain of profits through the transactions.

References

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